

# AMTAC

American Manufacturing Trade Action Coalition

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April 7, 2011

The Honorable Kevin Brady, Chairman  
The Honorable Jim McDermott, Ranking Member  
Subcommittee on Trade  
Ways and Means Committee Office  
1102 Longworth House Office Building  
Washington D.C. 20515

Dear Chairman Brady and Ranking Member McDermott:

The American Manufacturing Trade Action Coalition (AMTAC) would like to submit the following comments for the record in conjunction with the Ways and Means Trade Subcommittee on the U.S.-Korea Free Trade Agreement (KORUS).

AMTAC is a not-for-profit trade association that represents domestic manufacturers. All of our members share the common objective of preserving and expanding manufacturing in the United States by recapturing lost markets and winning new ones at home and abroad. A significant component of AMTAC's membership consists of textile and apparel producers.

## Summary

AMTAC strongly opposes the KORUS. First, the agreement itself is flawed in concept; second, the terms of the agreement were poorly negotiated to the disadvantage of key industries such as textiles; and third, the textile and apparel provisions in the agreement are unlikely to be adequately enforced. As a result, AMTAC expects that the flaws in the textile chapter of the agreement alone could result in an estimated loss of 40,000 U.S. jobs.

## KORUS is a Continuation of Flawed U.S. Trade Policy

It is AMTAC's strong position that the KORUS is a continuation of the flawed U.S. trade policy of negotiating free trade agreements (FTAs) with countries that can produce low-cost goods for export but that are unable or consistently refuse to buy finished products made in the United States. The substantial market disparity in relation to South Korea will continue this trend. South Korea's GDP is \$986.3 billion, or less than 7 percent of the U.S. GDP of \$14.6 trillion in 2010.<sup>1</sup>

With South Korea's current capabilities as a major producer and exporter of industrial products, its close proximity to China, and its traditional hostility to imports, the agreement will be a major blow to U.S. manufacturers. The U.S. trade deficit in goods with South Korea was \$10.0 billion in 2010, with a \$10.6 billion deficit in motor vehicles and motor vehicle parts and a \$600 million deficit in textiles and apparel.<sup>2</sup>

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<sup>1</sup> CIA World Factbook. Official Exchange Rate GDP.

<sup>2</sup> U.S. International Trade Commission, DATAWEB. Total Exports minus General Imports for All Commodities, DOC Automotive HTS10 List, and Textiles and Apparel HTS Chapters 50-63.

The KORUS will eliminate U.S. tariffs on 95 percent of current trade in industrial products within three years of implementation of the agreement. Despite this, the agreement does not guarantee reciprocal U.S. access to the South Korean market for key industrial products such as autos and textiles. Virtually all U.S. tariffs on textile and apparel products will be eliminated by January 1 of the 5<sup>th</sup> year of the agreement. In addition, the FTA does not take into account the fact that South Korea has a long history of unfair trading practices. Currently, there are 18 antidumping and countervailing duty orders in place against U.S. imports from South Korea.

We would also note that while KORUS will give South Korean goods duty-free entry into the U.S. market, U.S. exports to South Korea will be subjected to a 10 percent Value Added Tax (VAT). Through their VAT system, South Korea will be allowed to maintain what amounts to a permanent 10 percent tariff on U.S. exports to their market. Moreover, South Korea has complete freedom to raise their VAT rate above the current 10 percent at any point in the future. It is important to address this inequity as part of any trade agreement, as border taxes are another persistent example of foreign practices that place domestic companies at a competitive disadvantage.

### **U.S. Jobs at Stake**

The Economic Policy Institute predicts the KORUS agreement will increase the total U.S. trade deficit with South Korea by about \$16.7 billion annually and displace approximately 159,000 American jobs within the first seven years after it takes effect. Of that total, we estimate that between 9,300 and 12,300 jobs will be lost in the U.S. textile and apparel sectors as a result of KORUS trade. U.S. government figures show that approximately three additional jobs are lost to the U.S. economy for each textile job that is eliminated; this increases the job loss estimate to nearly 40,000 textile and related jobs due simply to the flaws in the KORUS textile chapter. It is also important to note that these figures do not account for job losses as a result of illegal Chinese transshipments, which we expect to be significant.

### **Impact on U.S. Textile and Apparel Sector**

According to the U.S. International Trade Commission's analysis of the agreement, "The largest gains for Korean exports to the United States are anticipated in textiles, apparel, and leather goods, and other manufacturing (e.g., chemicals and allied products, electronics, and transportation)." In these sectors, U.S. output is estimated to decline by 1.3 percent as a result of the FTA.

South Korea is a major exporter of textile and apparel products to the United States as our 8<sup>th</sup> largest supplier of textiles and apparel by volume for the year-ending January 2011. In yarns and fabrics alone, where South Korea is particularly competitive, they are our 2<sup>nd</sup> largest supplier in terms of volume. As a result, we are deeply concerned about the KORUS agreement and how it is expected to impact our industry and its ability to remain competitive in the global marketplace.

In addition to its direct threat to the U.S. market, KORUS represents a significant attack on the hemispheric textile production structure encouraged by U.S. policy for three decades. As a result of trade preference programs and the NAFTA/ CAFTA/Peru FTAs, nearly two million textile and apparel workers produce garments, home furnishings and the textile components incorporated in those products in the region. The U.S. textile and apparel industry exports more than \$10 billion a year, predominantly in components such as yarns, fabrics and cut pieces, to our preferential partners in the Western Hemisphere. This trade accounts for the overwhelming majority of total U.S. textile and apparel exports.

The KORUS threatens to damage the Western Hemisphere because South Korea's textile and apparel exports are expected to surge and displace orders currently being sourced in the region. When finished product orders are lost by manufacturers in the Western Hemisphere, U.S. mills also lose the orders for the yarns and fabrics that go into garments and made-up articles.

Moreover, the poorly-negotiated textile and apparel text will exacerbate the negative effects of the agreement. Our principal concerns with the text include accelerated tariff phase-outs that do not give U.S. producers time to adjust, non-reciprocal tariff phase-outs that favor the South Korean textile industry in key products, exclusion of certain textile components from the rule of origin, and strong evidence that Customs' ability to enforce this agreement will be ineffective.

### **Tariff Phase-Out**

Contrary to the precedent established in the NAFTA and succeeding FTAs, 86 percent of textile and apparel product lines are duty free immediately under KORUS and an additional 10 percent will be duty free on January 1 of Year 5 of the agreement. This is the first time a large number of sensitive products from a country with a sophisticated textile industry have received immediate access to the U.S. market. Tariff phase-outs for sensitive products have traditionally been a key part of trade agreements in order to give companies time to adjust business models and minimize large-scale potential job displacement.

For example, South Korea exports of polyester fiberfill have entered the United States under anti-dumping orders for the past 15 years. This dumping case passed two sunset reviews, the last of which was successfully completed prior to the end of the KORUS negotiations. However, the KORUS agreement immediately removes the U.S. duty on polyester fiberfill, defeating the purpose of the anti-dumping rule and defying logic of equitable trade negotiations.

The agreement also provides South Korea with a more generous and expedited tariff elimination schedule than what is afforded U.S. producers and exporters for certain products. One example is para-aramid fiber, which is used to produce tough, flame-retardant fabrics for industrial and military applications including body armor. Under KORUS, South Korea will be allowed to export aramids to the U.S. with immediate duty free treatment. U.S. producers do not get duty free access to the Korean market as South Korea is allowed to phase out its tariff to be duty free on January 1 of Year 5. This puts U.S. manufacturers at a direct disadvantage.

### **Rule-of-Origin**

The rule of origin is a critical element of any free trade agreement in that it defines which products qualify for preferential treatment under the agreement and whether countries not party to the agreement will receive benefits. The KORUS contains a "yarn forward" rule of origin. While we support a basic yarn forward rule as opposed to value-based rules, the limited scope of the rule under KORUS is very problematic.

In essence, the rule applies only to the apparel or home furnishing component that determines the tariff classification of the good (the "essential character" rule) plus certain visible lining fabrics. Applying origin rules in this manner means that key component yarns, threads and fabrics are not adequately covered under the rule of origin and therefore do not have to be of U.S. or South Korean origin. This conflicts with the majority of our recent agreements including CAFTA-DR, Peru, Colombia and Panama which apply the yarn forward rule beyond just the essential character fabric.

Under KORUS, components including sewing thread, pocketing and narrow fabrics, all of which are in plentiful supply from U.S. producers, are allowed to come from anywhere. This allows third parties, such as China, to benefit without making any concessions of their own. Domestic producers of these types of component yarns fabrics provide thousands of U.S. jobs, which will be put into jeopardy if KORUS is implemented.

### **Customs Enforcement**

Due to South Korea's history of transshipment paired with significant cross-border investment with China, upgraded customs enforcement provisions were necessary to prevent large-scale customs fraud under KORUS. However, the KORUS customs enforcement language was significantly weakened compared to other high risk agreement such as the Singapore FTA. Furthermore, the KORUS text also includes several problematic new measures, such as an exemption for small and medium-sized enterprises from reporting requirements, which hamper CBP's ability to enforce the agreement.

China already exports nearly \$4 billion in textiles and apparel to South Korea each year, and South Korea was labeled by U.S. Customs as a major transshipment point for Chinese exporters when quotas were in place.<sup>3</sup>

The substandard customs provision in the KORUS leave the U.S. textile industry and its workers vulnerable to large-scale illegal imports from China through South Korea. As a result, the industry fully expects Chinese textile exporters to be a primary beneficiary of the KORUS agreement.

### **Industrial Textiles**

In addition to these overarching concerns, U.S. industrial textile manufacturers are particularly concerned about this agreement and its impact on the extended domestic supply chain for coated and laminated membranes used in industrial and military applications such as fuel cells, oil booms, rapidly deployable shelters/tents, radar attenuating covers, safety and protective gear, and many more advanced applications, including automotive fabrics. This particular component of the U.S. textile industry represents over 25,000 jobs throughout the country and many companies participating in this supply chain also support the military needs of our warfighters. The ability to innovate and responsively supply the military is dependent on an overall healthy domestic market and industry.

In the U.S. technical textile market, South Korea has emerged as the number one exporter of advanced textile reinforcements, and this sensitive tariff line is scheduled for immediate tariff phase out. U.S. industrial textile producers have already lost significant market share to South Korean manufacturers and this FTA will do significant harm to the industrial textile industry and greatly diminish the sustainability of our fragile domestic supply base.

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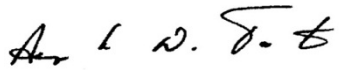
<sup>3</sup> CBP (July 10, 2008). "CBP Charges More Than 1,000 Containers of Illegal Textile Shipments to China's Quota Levels." Press release.  
[http://www.cbp.gov/xp/cgov/newsroom/news\\_releases/archives/2008\\_news\\_releases/july\\_2008/071020083.xml](http://www.cbp.gov/xp/cgov/newsroom/news_releases/archives/2008_news_releases/july_2008/071020083.xml)

### **Textile Provisions Left Unaddressed in Reopening of Agreement**

Last August, AMTAC and other industry associations requested that the Obama administration reopen the textile and apparel chapter of the agreement along with autos in order to fix the above-outlined problems. However, textile concerns were never raised with South Korea, and these provisions remain unchanged despite the reasonable requests which were made by the industry.

As a result, we urge Members of Congress to reject the agreement due to an overall lack of reciprocity and negative impact on U.S. companies and jobs. Congress should prioritize fixing U.S. trade policy, stopping manufacturing job loss, and closing the trade deficit before considering any new trade deals including KORUS.

Sincerely,

A handwritten signature in black ink, appearing to read "A. D. Tantillo".

Augustine D. Tantillo  
Executive Director